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March 3, 1998

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Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M St., N.W. Room 222
Washington, D.C. 20554

Re: CC Docket No. 97-211 (Applications of WorldCom and MCI for Transfer of Control of MCI to WorldCom)

Dear Ms. Salas:

On March 2, 1998, F. Whitney Hatch, V.P. of Regulatory Affairs for GTE Service Corporation ("GTE"), Marc Schechter, of Howery & Simon, and I met with Commission staff members from the International Bureau, Common Carrier Bureau and the Office of the General Counsel's Competition Division, listed below, to discuss GTE's concerns regarding the proposed merger of WorldCom and MCI. Our discussion focused on issues raised in GTE's pleadings in this proceeding, including: WorldCom and MCI's failure to produce required information to the Commission; the proposed merger's detrimental impact on competition and consumers in local, long distance, Internet and international markets; and the need for inspection of the Applicants' Hart-Scott-Rodino materials filed with the Department of Justice.

The attached handouts were used in our discussion and provide the substance of our conversations. They include: a 15-page packet of materials that detail the basis for GTE's above-stated objections; a chart summarizing the competitive effects of the proposed merger; a chart defining the HHI effects of the proposed merger on long distance, international and Internet markets; and six maps demonstrating the HHI effects of the proposed merger on International Private Line and International Message Toll Service markets.

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Magalie Roman Salas

March 3, 1998

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In accordance with Commission rules, an original and one copy of this notice, as well as all materials provided to the Commission staff are being submitted to the Secretary.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Michael Senkowski". The signature is written in a cursive, somewhat stylized script.

R. Michael Senkowski

Enclosure: Exhibits

cc: Michelle Cary, Joanna Lowry, Susan Launer, Matt Nagler, Bill Bailey, Michael Kende, Michael Pryor, Jennifer Fabian, John W. Berresford, Marilyn Simon, Eric J. Bash, Daniel Shiman, James Earl

In the Matter of

APPLICATIONS OF

WORLDCOM AND MCI

CC Docket No. 97-211

Ex Parte Presentation by

GTE Service Corporation

March 2, 1998

FCC STANDARDS FOR REVIEWING MERGERS

- **Burden of Proof on Applicants — Must Demonstrate That:**
 - Harms to Competition Are Outweighed by Benefits That Enhance Competition (Bell Atlantic / NYNEX Order, ¶ 2)
 - The Merger Would Not Eliminate Potentially Significant Sources of Competition (Bell Atlantic / NYNEX Order, ¶ 3)
- **Competitive Assessment Required**
 - Definition of Product Markets
 - Definition of Geographic Markets
 - Identification of Most Significant Market Participants
 - Analysis of Competitive Effects for Classes of Users
 - Large Businesses/Government Users
 - Medium-Sized Businesses
 - Residential Subscribers and Small Businesses

FCC STANDARDS FOR REVIEWING MERGERS (continued)

- **Public Interest Showing Required**
 - “Verifiable” Benefits Only
 - Benefits Not Arising “But For” the Merger
 - Cost Reductions
 - Productivity Enhancements
 - Improved Incentives for Innovation
 - No Credit for Generalized or Speculative Claims

FCC STANDARDS FOR REVIEWING MERGERS (continued)

- **Inspection of Hart-Scott-Rodino and Related DOJ Submissions**
 - Necessary in Major Mergers with Competitive Issues
 - Bell Atlantic/NYNEX, FCC 97-286 (rel. Aug. 14, 1997)
 - AT&T/McCaw, 9 FCC Rcd 2610 (1994)
 - Petitioners' Right To Inspect Recognized

APPLICANTS ARE EXPECTED TO PROVIDE COMPETITIVE ASSESSMENTS AND DOCUMENT PUBLIC INTEREST BENEFITS IN THEIR APPLICATIONS

WORLDCOM/MCI APPLICATIONS

- **No Attempt to Meet Any Aspect of FCC Merger Standards**
 - No Definition of Product Markets
 - No Definition of Geographic Markets
 - No Identification of Most Significant Market Participants
 - No Assessment of Competitive Effects upon Large Businesses, Small Businesses or Residential Customers
- **No Competitive Assessment Undertaken — Only Unsupported Claims That:**
 - Business Interests Are “Complementary Rather than Competitive”
 - Smaller than AT&T in Interexchange and International Services
 - Smaller than ILECs in Local Exchange and Exchange Access Services

WORLDCOM/MCI APPLICATIONS (continued)

- **No Verification for Public Interest Benefits**
 - References to Generalized Statements in SEC Filings Concerning “Efficiencies and Synergy” Gains
 - No Attempt To Verify Claims of Pro-Competitive Effects
 - No Attempt To Assess Benefits for Different Classes of Consumers

WORLDCOM AND MCI DELIBERATELY ELECTED NOT TO PROVIDE COMPETITIVE AND PUBLIC INTEREST SHOWINGS IN THEIR APPLICATIONS

FACTS CONCERNING THE MERGER RAISING COMPETITIVE CONCERNS

- **Combination of Number Two and Number Four Interexchange Carriers**
 - Increased Concentration and Risks of Collusion
 - Changed Incentives for Maverick
 - Adverse Impact Upon Access to Wholesale Capacity and Advanced Features
 - Reduced Pricing Competition Cited by Merrill Lynch
- **Combination of Number Two and Number Three International Private Line Carriers**
 - Increased Concentration and Risks of Collusion
 - Merged Entity Dominant or Even Sole Provider on Many International Private Line Routes

FACTS CONCERNING THE MERGER (continued)

- **Combination of Number Two and Number Four IMTS Carriers**
 - Increased Concentration and Risks of Collusion
 - Merged Entity Dominant on Many IMTS Routes
- **Competitive Overlaps in Numerous CLEC Markets**
 - Reduced Price Competition Cited by Merrill Lynch
 - Savings by Avoiding Planned MCI Metro Commitments to Local Exchange Competition Cited by Merrill Lynch
 - Discontinuance of Residential Services Provided by Resale Announced

FACTS CONCERNING THE MERGER (continued)

- **Creation of a Dominant Internet Backbone Provider**
 - Market Share of Approximately 50% or More by a Variety of Different Measures
 1. Revenue
 2. Connections
 - Merged Entity Can Potentially Dictate Interconnection Terms
 - Merged Entity Can Potentially Discriminate Against Competitors
- **No Record Evidence Concerning Public Interest Benefits**
 - No Verifiable Evidence of Efficiencies and Synergies
 - No Verifiable Evidence of Pro-Competitive Benefits
 - Evidence Offered Suggests Savings by Cutting Commitments to Local Exchange Competition and “Enhancing” Revenues Through Reduced Competitiveness

**THE MERGER INHERENTLY REDUCES COMPETITION IN NUMEROUS
MARKETS WITH NO VERIFIABLE PUBLIC INTEREST BENEFITS**

WORLDCOM/MCI OPPOSITION

- **An Attempt to “Game the Process” Evidenced in Opposition**
 - Tries to Shift Burdens to Petitioners
 - Reflects Conscious Decision To Withhold Information Until After Petitions Filed
 - Reflects Conscious Decision To Provide as Few Facts as Possible to the Agency and Petitioners

WORLDCOM/MCI OPPOSITION (continued)

- **A Fatally Flawed Rebuttal Concerning Competitive Effects**
 - No Systematic Attempt To Make Bell Atlantic Showing
 - Product Markets Lumped Together To Understate Anti-Competitive Effects
 - Assertion that interexchange wholesale and retail services are part of a single product market
 - Assertion that international private lines and IMTS are part of a single product market
 - Assertion that Internet service market includes anything and anyone involved in Internet-related business activities
 - Geographic Markets Lumped Together To Understate Anti-Competitive Effects
 - Assertion of global geographic market for international services
 - Implies that the geographic market for Internet services is global

WORLDCOM/MCI OPPOSITION (continued)

- **A Fatally Flawed Rebuttal Concerning Competitive Effects (continued)**
 - All Classes of Customers Lumped Together To Minimize Anti-Competitive Effects
 - Assertion that there is only one general class of customers
 - No assessment for small businesses or residential customers
 - No assessment for mid-sized businesses
 - Data provided is for all classes of customers or focuses on information relevant to large business customers
 - Conflicting and Self-Serving Discussions of Market Participants
 - Small Interexchange Carriers Deemed Significant for Interexchange Services
 - WorldCom and MCI CLEC Businesses Not Deemed Significant for Local Exchange Services

WORLDCOM/MCI OPPOSITION (continued)

- **A Fatally Flawed Public Interest Rebuttal**

- Efficiencies and Synergy Claims Are Not Verified

- Carlton and Sider affidavit assumes underlying claims of applicants and acknowledges no inspection of data or assumptions (¶ 13)
 - SEC filing cites to financial advisor opinions in which the advisors disclaim any review of underlying data or assumptions
 - Applicants have not offered FCC the data and assumptions, underlying savings claims

WORLDCOM/MCI OPPOSITION (continued)

- **A Fatally Flawed Public Interest Rebuttal (continued)**
 - Claims of Pro-Competitive Effects Are Not Verified
 - No evidence that merger will result in increased competition for local exchange services, particularly for small businesses and residential customers
 - No evidence that merger will promote interexchange competition
 - No evidence that merger will promote international service competition
 - No evidence that merger will promote Internet competition

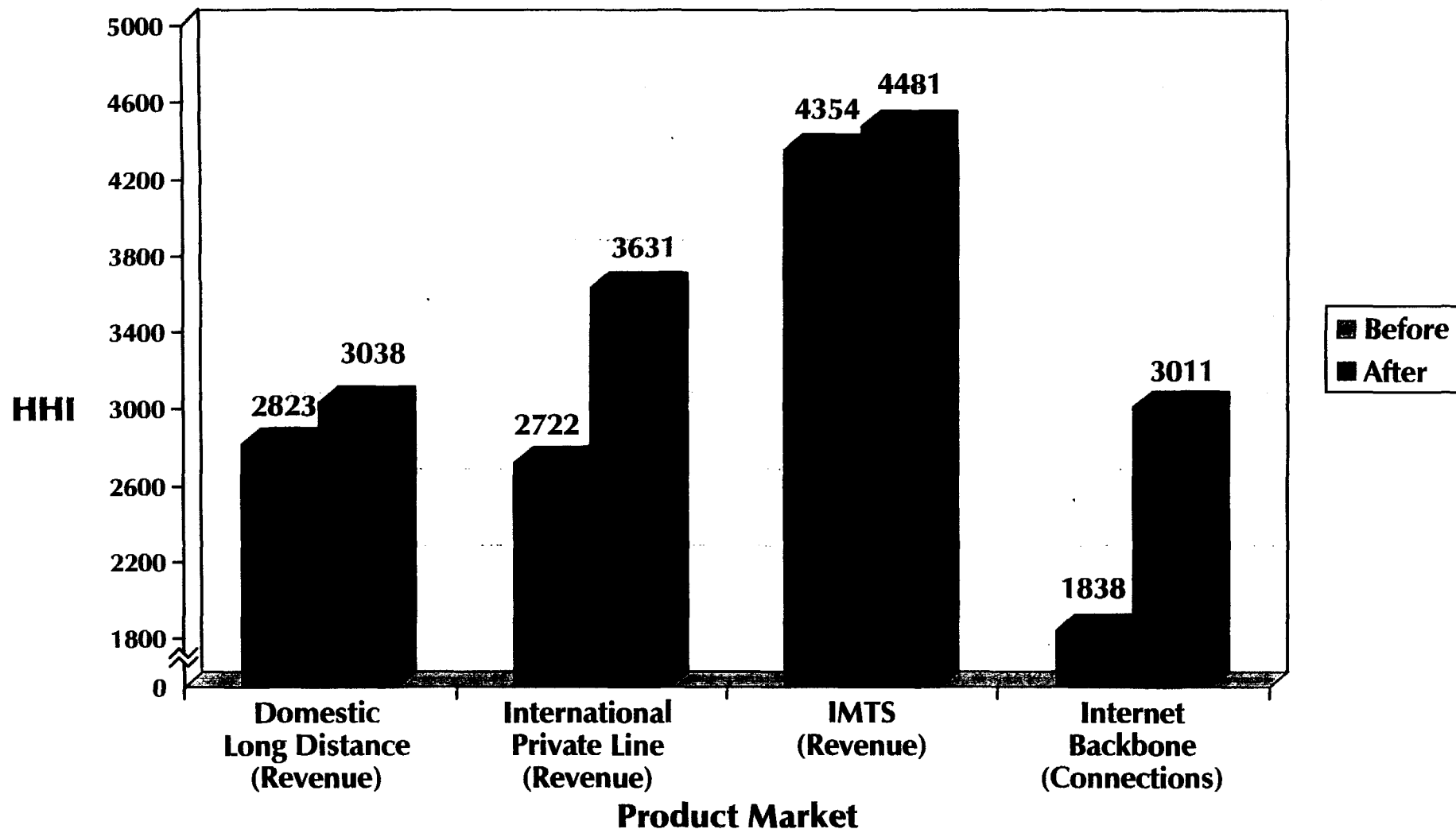
**WORLDCOM AND MCI HAVE IGNORED SERIOUS ISSUES
CONCERNING POTENTIAL ANTI-COMPETITIVE EFFECTS AND FAILED
TO PROVIDE VERIFIABLE FACTS TO SUPPORT THEIR CLAIMED PUBLIC
INTEREST BENEFITS**

APPROPRIATE FCC ACTIONS

- **FCC Is Properly Requiring Applicants To Comply with the Agency's Merger Standards**
- **FCC Should Request Hart-Scott-Rodino and Related Information Promptly**
- **FCC Should Afford Public Access to Hart-Scott-Rodino and Related Information Under Appropriate Procedures**
- **FCC Should Structure Comment Processes that Allow the Public the Opportunity for Informed Participation Following Access to the Hart-Scott-Rodino Information and Any New Showings by WorldCom and MCI**

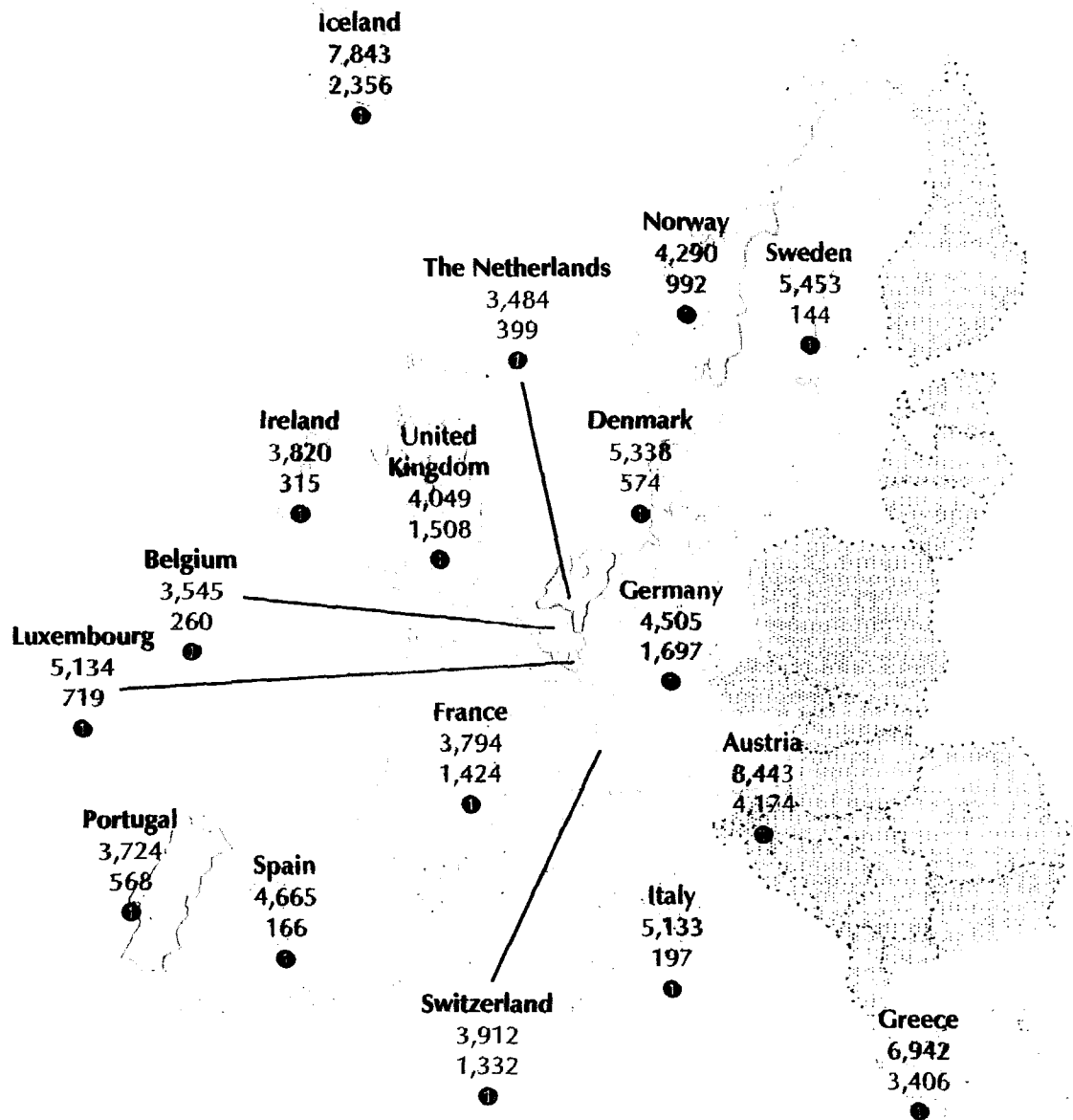
ON THE FACE OF THE RECORD, THE APPLICANTS HAVE NOT CARRIED THEIR BURDENS OF PROOF AND THE APPLICATIONS MUST EITHER BE DISMISSED OR SET FOR EVIDENTIARY HEARINGS

HHI Effects of the Proposed WorldCom/MCI Merger*



- Department of Justice guidelines define HHI over 1800 as "concentrated market"
 - Above HHI of 1800, 100-point increases are deemed "likely to create or enhance market power"
- (* Sources: FCC Long-Distance Market Shares Report; Blake & Lande, 1996 Section 43.61: International Telecommunications Data, January 28, 1998; "Backbone Market Share," Boardwatch Internet Service Providers Directory for Fall 1997, Boardwatch Magazine, 1997, p.6)

International Private Line HHI Analysis Europe



Legend:

Post-Merger HHI

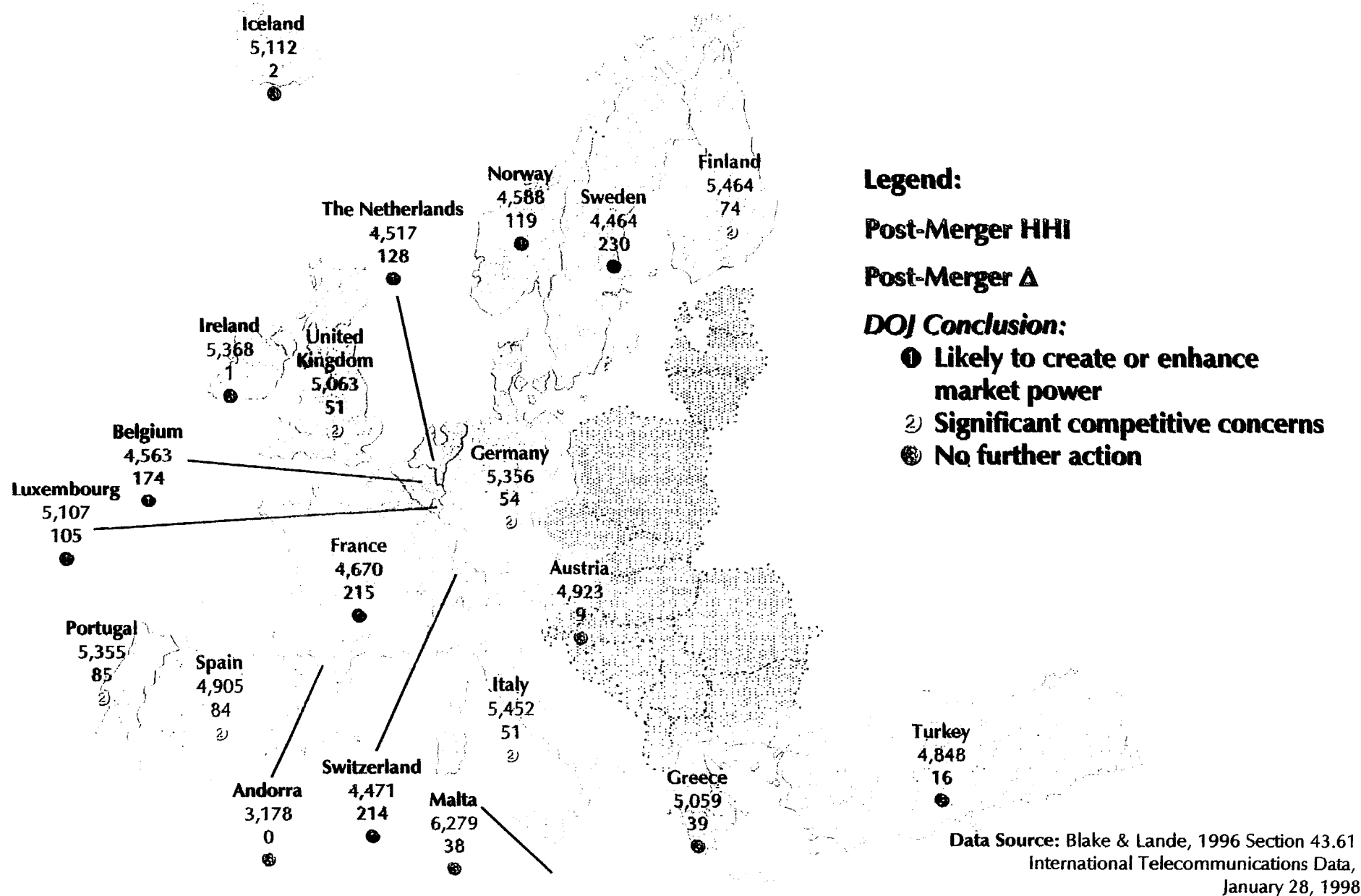
Post-Merger Δ

DOJ Conclusion:

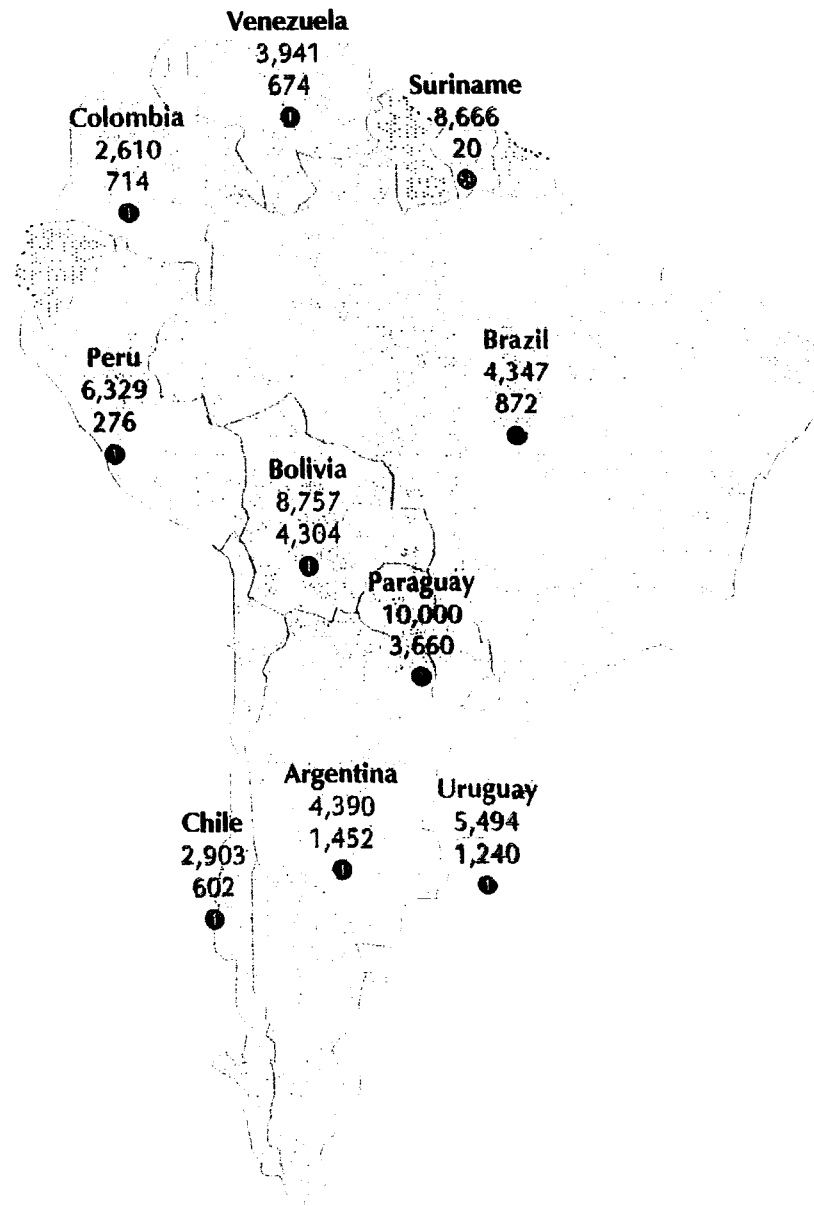
● Likely to create or enhance market power

Data Source: Blake & Lande, 1996 Section 43.61
International Telecommunications Data,
January 28, 1998

International Message Toll Service HHI Analysis Europe



International Private Line HHI Analysis South America



Legend:

Post-Merger HHI

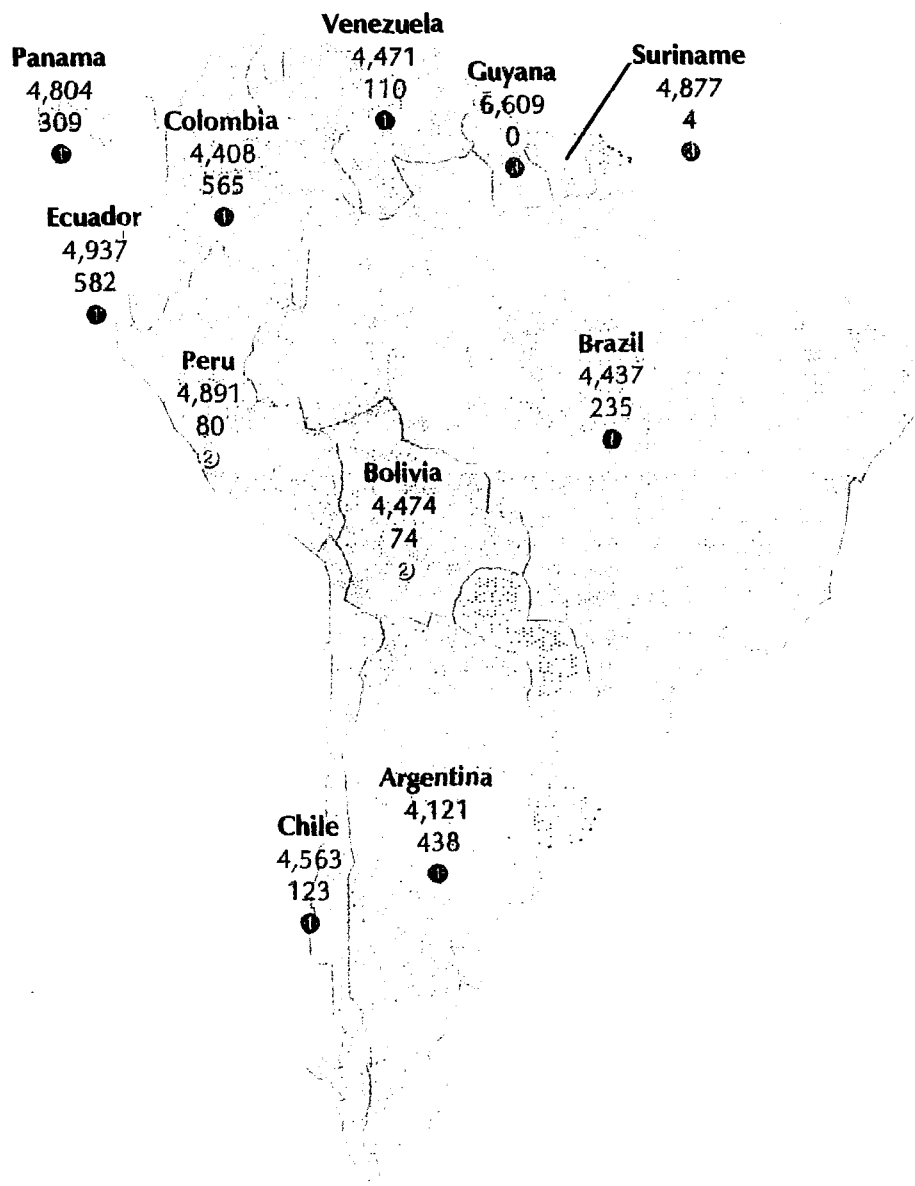
Post-Merger Δ

DOJ Conclusion:

- Likely to create or enhance market power
- No further action

Data Source: Blake & Lande, 1996 Section 43.61
International Telecommunications Data,
January 28, 1998

International Message Toll Service HHI Analysis South America



Legend:

Post-Merger HHI

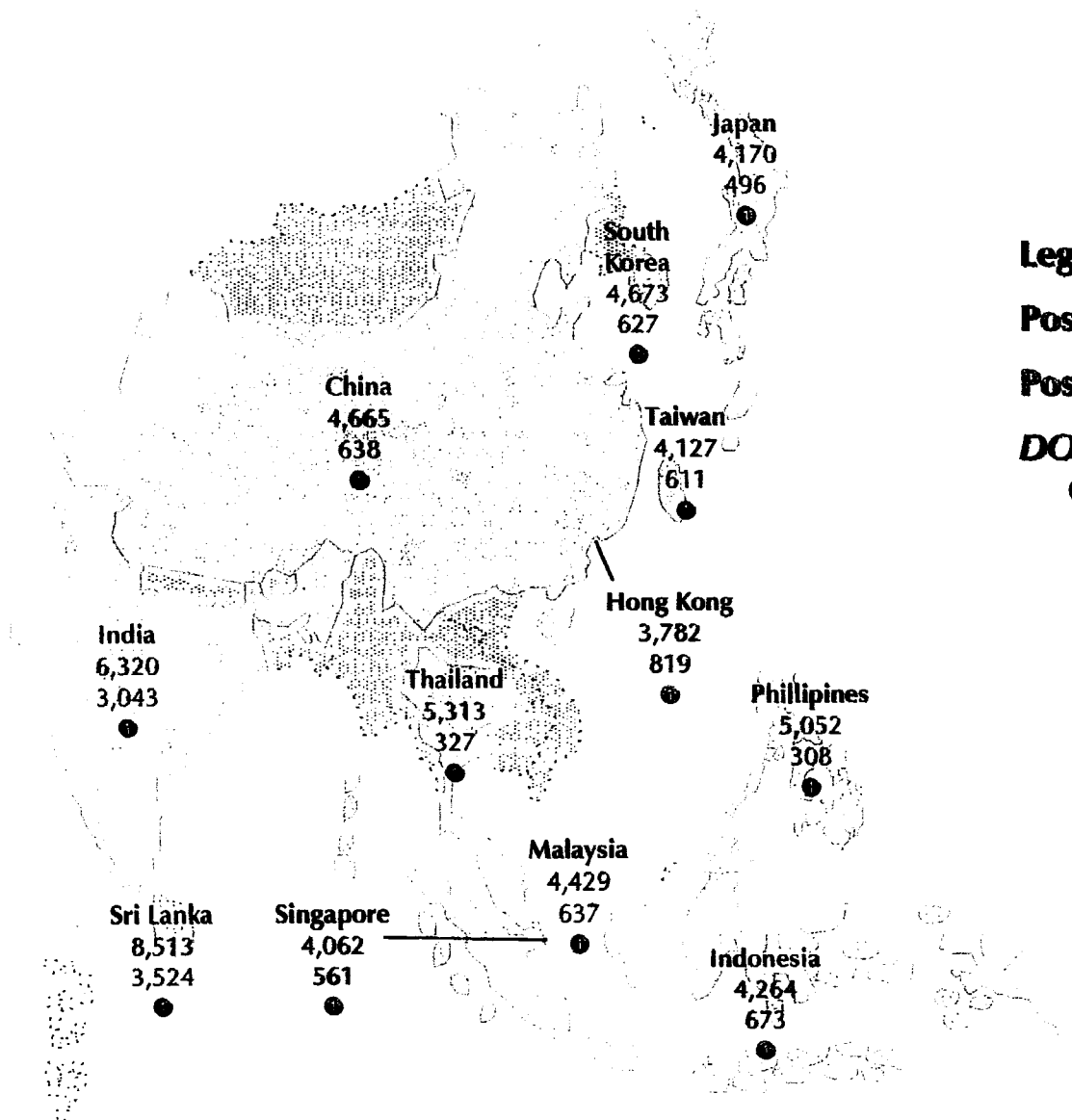
Post-Merger Δ

DOJ Conclusion:

- 1 Likely to create or enhance market power
- 2 Significant competitive concerns
- 3 No further action

Data Source: Blake & Lande, 1996 Section 43.61
International Telecommunications Data,
January 28, 1998

International Private Line HHI Analysis Asia



Legend:

Post-Merger HHI

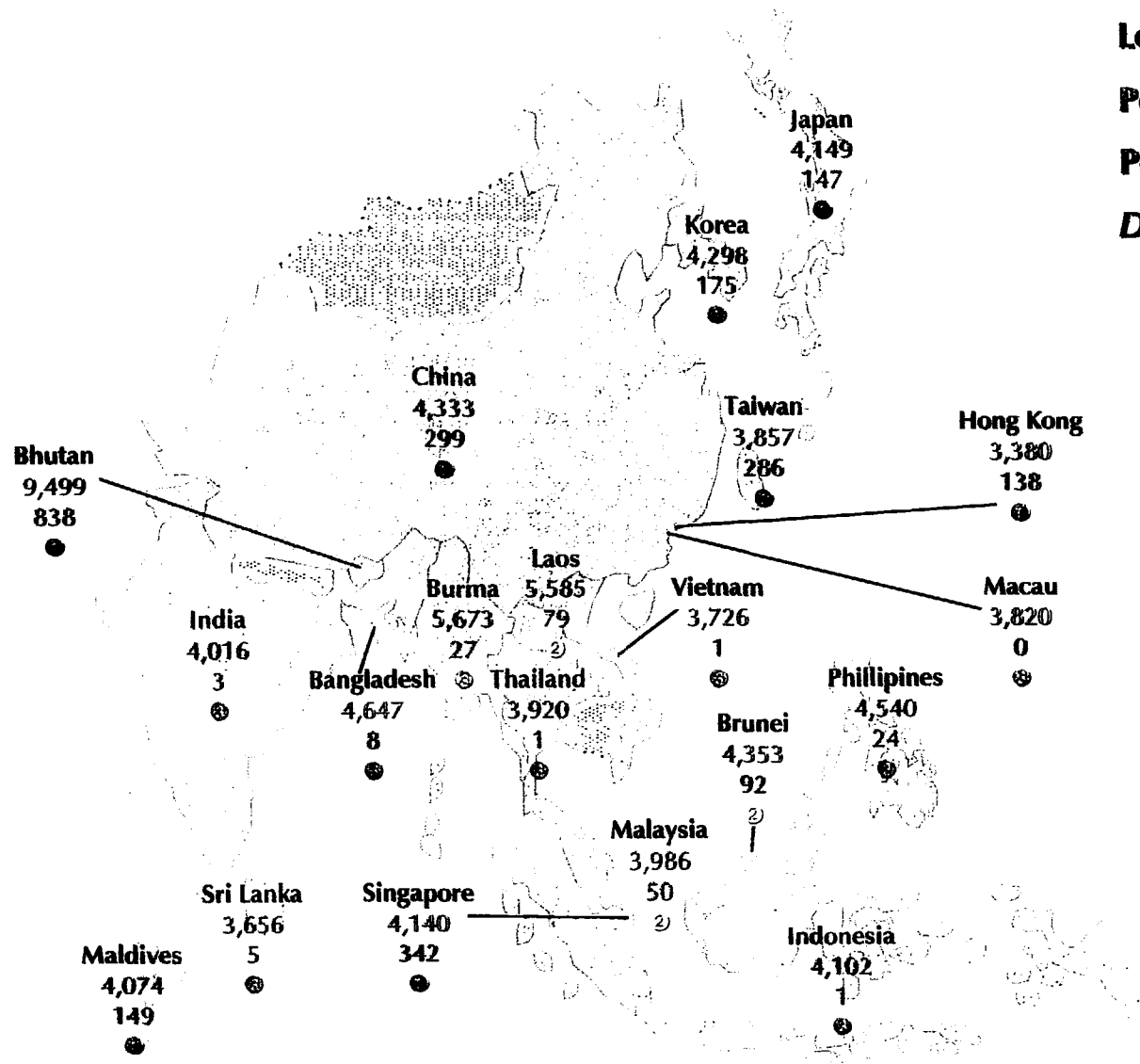
Post-Merger Δ

DOJ Conclusion:

① Likely to create or enhance market power

Data Source: Blake & Lande, 1996 Section 43.61
International Telecommunications Data,
January 28, 1998

International Message Toll Service HHI Analysis Asia



Legend:

Post-Merger HHI

Post-Merger Δ

DOJ Conclusion:

- ① Likely to create or enhance market power
- ② Significant competitive concerns
- ③ No further action

Data Source: Blake & Lande, 1996 Section 43.61
International Telecommunications Data,
January 28, 1998

SUMMARY OF THE COMPETITIVE EFFECTS OF THE WORLDCOM/MCI MERGER

LONG DISTANCE SERVICES	BELL ATLANTIC/NYNEX STANDARD	APPLICANTS' CLAIMS	PETITIONERS' AND COMMENTARIES
	Identify the relevant product markets	<ul style="list-style-type: none"> Interexchange retail and wholesale services are part of a single market 	<ul style="list-style-type: none"> There are two relevant product markets: (1) retail long distance and (2) wholesale long distance (e.g., bulk capacity, advanced features)
	Identify the relevant geographic markets	<ul style="list-style-type: none"> No discussion 	<ul style="list-style-type: none"> In <i>LEC In-Region Interexchange</i>, FCC found that each point-to-point geographic market constitutes a separate geographic market, but markets may be grouped where customers face the same competitive conditions